

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

Audit Report

SCHOOL DISTRICT OF CHOICE: TRANSFERS AND APPEALS PROGRAM

Chapter 160, Statutes of 1993,
and Chapter 1262, Statutes of 1994

July 1, 1999, through June 30, 2002



STEVE WESTLY
California State Controller

August 2004



STEVE WESTLY
California State Controller

August 31, 2004

Robert J. Barbot, Ed.D., Superintendent
Newport-Mesa Unified School District
2985 Bear Street
Costa Mesa, CA 92626

Dear Dr. Barbot:

The State Controller's Office audited the claims filed by the Newport-Mesa Unified School District for costs of the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$1,164,919 (\$1,165,919 in costs less a \$1,000 late filing penalty) for the mandated program. Our audit disclosed that none of the claimed costs is allowable because the district claimed costs that were unsupported. The district was paid \$295,684, which should be returned to the State.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: Jeff Trader, Director of Fiscal Services
Newport-Mesa Unified School District
Jean Cook, Financial Analyst
Newport-Mesa Unified School District
William M. Habermehl, Superintendent
Orange County Department of Education
Scott Hannan, Director
School Fiscal Services Division
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Arlene Matsuura, Educational Consultant
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Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
Charles Pillsbury, School Apportionment Specialist
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the Newport-Mesa Unified School District for costs of the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was February 11, 2004.

The district claimed \$1,164,919 (\$1,165,919 in costs less a \$1,000 late filing penalty) for the mandated program. The audit disclosed that none of the claimed costs is allowable because the district claimed costs that were unsupported. The district was paid \$295,684. The total amount paid should be returned to the State.

Background

Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, added and amended *Education Code* Sections 48209.1, 48209.7, 48209.10, 48209.13, and 48209.14 by requiring that any school district may elect to accept inter-district transfers and become a school district of attendance "choice" for pupils from other school districts. This legislation also establishes the statutory right of the parent or guardian of a pupil who is prohibited from transferring to appeal this decision to the county board of education.

If a district makes the election, the choice program requires several nondiscriminatory policies.

- Transfers are to be allowed on a random basis, subject to a numerical limit adopted by either the "sending" district of residence or "receiving" district of choice and may be prohibited if they adversely affect either school district's integration program.
- Although districts are not required to establish new programs to accommodate the pupil transfer, the school district of choice cannot prohibit a transfer of a pupil just because the additional cost of educating the pupil would exceed the amount of additional state aid received as a result of the transfer.
- Resident pupils cannot be displaced by a choice transfer.
- Rejected requests for transfer require that the district provide written notification to the parent or guardian of the reason.
- Once a transfer is granted, the pupil has the right of continuation to other grade levels.

All school districts are required to collect and report data on the number of requests submitted, transfers granted, and transfers denied.

On April 28, 1995, and May 6, 1996, the Commission on State Mandates (COSM) determined that Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, imposed a state mandate upon school districts and county offices of education reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines criteria for reimbursement. COSM adopted the *Parameters and Guidelines* on July 25, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from School District of Choice: Transfers and Appeals Program for the period of July 1, 1999, through June 30, 2002.

We performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Finding and Recommendation section of this report.

For the audit period, the Newport-Mesa Unified School District claimed \$1,165,919 (less a \$1,000 late penalty) for costs of the legislatively mandated School District of Choice: Transfers and Appeals Program. The audit disclosed that none of the claimed costs is allowable.

For fiscal year (FY) 1999-2000, the district was paid \$10,684 by the State. The audit disclosed that none of the claimed costs is allowable. The entire amount paid totaling \$10,684 should be returned to the State.

For FY 2000-01, the district was paid \$0 by the State. The audit disclosed that none of the claimed costs is allowable.

For FY 2001-02, the district was paid \$285,000 by the State. The audit disclosed none of the claimed costs is allowable. The entire amount paid totaling \$285,000 should be returned to the State.

**Views of
Responsible
Officials**

We issued a draft report on July 2, 2004. Superintendent Robert J. Barbot, Ed.D., responded by letter dated July 16, 2004, disagreeing with the audit results. This report includes the district's response.

Restricted Use

This report is solely for the information and use of the Newport-Mesa Unified School District, the Orange County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 1999, through June 30, 2000</u>			
Salaries and benefits	\$ 236,373	\$ —	\$ (236,373)
Materials and supplies	—	—	—
Subtotals	236,373	—	(236,373)
Indirect costs	7,706	—	(7,706)
Subtotals	244,079	—	(244,079)
Less late penalty	(1,000)	—	1,000
Net claimed costs	<u>\$ 243,079</u>	—	<u>\$ (243,079)</u>
Less amount paid by the State		(10,684)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (10,684)</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Salaries and benefits	\$ 241,273	\$ —	\$ (241,273)
Materials and supplies	—	—	—
Subtotals	241,273	—	(241,273)
Indirect costs	17,999	—	(17,999)
Subtotals	259,272	—	(259,272)
Less late penalty	—	—	—
Net claimed costs	<u>\$ 259,272</u>	—	<u>\$ (259,272)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Salaries and benefits	\$ 632,886	\$ —	\$ (632,886)
Materials and supplies	—	—	—
Subtotals	632,886	—	(632,886)
Indirect costs	29,682	—	(29,682)
Subtotals	662,568	—	(662,568)
Less late penalty	—	—	—
Net claimed costs	<u>\$ 662,568</u>	—	<u>\$ (662,568)</u>
Less amount paid by the State		(285,000)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (285,000)</u>	

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u> ¹
<u>Summary: July 1, 1999, through June 30, 2002</u>			
Salaries and benefits	\$ 1,110,532	\$ —	\$(1,110,532)
Materials and supplies	<u>—</u>	<u>—</u>	<u>—</u>
Subtotals	1,110,532	—	(1,110,532)
Indirect costs	<u>55,387</u>	<u>—</u>	<u>(55,387)</u>
Subtotals	1,165,919	—	(1,165,919)
Less late penalty	<u>(1,000)</u>	<u>—</u>	<u>1,000</u>
Net claimed costs	<u>\$ 1,164,919</u>	—	<u>\$(1,164,919)</u>
Less amount paid by the State		<u>(295,684)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (295,684)</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Unsupported salary and benefit costs

The district claimed unsupported salary and benefit costs totaling \$1,110,532 for the audit period. The related indirect cost is \$55,387.

The unallowable costs were due to the following circumstances:

- Claimed costs totaling \$1,105,564 (\$231,509 for FY 1999-2000, \$241,169 for FY 2000-01, and \$632,886 for FY 2001-02) were based on employees' declarations prepared 18 months after the end of the fiscal year for FY 1999-2000, six months after the end of the fiscal year for FY 2000-01, and at year-end for FY 2001-02. Filed claims stated that good faith estimates were used since actual mandate-related time were not recorded by district staff. The district did not provide source documents to validate costs claimed. From an audit standpoint, declarations are unacceptable documentation without source documents to validate the time spent performing mandated activities.
- Claimed costs totaling \$4,848 (\$4,770 for FY 1999-2000 and \$78 for FY 2000-01) were based on employee time logs for activities not related to the mandate (responses to non-school district of choice).
- Claimed costs totaling \$120 (\$94 for FY 1999-2000 and \$26 for FY 2000-01) were attributable to providing inter-district transfer responses. Time logs did not specify whether the inquiries were mandated activities (choice of school district) or non-mandated activities (inquiries for parents' place of employment or inter-district transfer).

A summary of the audit adjustments to the salary and benefit costs, and related indirect costs is as follows:

	Fiscal Year			
	1999-2000	2000-01	2001-02	Total
Salary and benefit costs	\$ (236,373)	\$ (241,273)	\$ (632,886)	\$(1,110,532)
Indirect costs	(7,706)	(17,999)	(29,682)	(55,387)
Audit adjustment	<u>\$ (244,079)</u>	<u>\$ (259,272)</u>	<u>\$ (662,568)</u>	<u>\$(1,165,919)</u>

Parameters and Guidelines for the program specifies that only actual increased costs incurred in the performance of the mandated activities and supported by appropriate documents (e.g., employee time records, invoices, receipts, purchase orders, contracts) are reimbursable.

Recommendation

We recommend that the district establish procedures to ensure all claimed costs are properly supported and reimbursable.

District's Response

The District's 1999-2000 and 2000-2001 claim were filed on December 22, 2001. They are not subject to audit after December 31, 2003.

The District has complied with the requirements of the Parameters and Guidelines to provide "source documents" such as "employee time records and/or worksheets."

For the reasons stated herein, Newport Mesa-Unified School District respectfully submits that the proposed audit report be corrected as to the facts and the law prior to its final issuance.

SCO's Comment

The finding and recommendation remain unchanged. The audits for FY 1999-2000 and FY 2000-01 claims were initiated within the statutory time period.

We contacted the district on October 24, 2003, to initiate the audit for claims filed for FY 1999-2000, FY 2000-01, and FY 2001-02. At the district's request, the entrance conference and fieldwork was to commence on December 1, 2003. *Government Code* Section 17558.5(a), in effect for the claims filed, allows the SCO to initiate, rather than requires completion of, an audit no later than two years after the end of the calendar year in which the claim is filed or last amended. The district filed FY 1999-2000 and FY 2000-01 claims in December 2001. The SCO's authority to initiate an audit for these claims expired on December 31, 2003.

The district based most of its claimed costs on employees' declarations. The district did not provide source documents to validate these costs. From an audit standpoint, declarations are unacceptable documentation without source documents to validate the time spent performing the mandated activities.

**Attachment—
District's Response to
Draft Audit Report**



NEWPORT-MESA Unified School District

2985-A Bear Street • Costa Mesa • California 92626 • (714) 424-5000

BOARD OF TRUSTEES

Dana Black • Dave Brooks • Tom Egan

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Robert J. Barbot Ed. D., Superintendent

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mailing Address: P.O. Box 1368
Newport Beach, CA 92663-0368

July 16, 2004

Mr. Jim L. Spano, Chief
Compliance Audits Bureau
California State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Newport-Mesa Unified School District
160/93 School District of Choice: Transfer and Appeals
Audit of Annual Mandate Reimbursement Claims
FY 1999-00, 2000-01 and 2001-02

Dear Mr. Spano:

This letter is in response to the letter from Vincent P. Brown dated July 2, 2004 to Newport-Mesa Unified School District which enclosed a Draft Copy of your Audit Report of the District's School District of Choice: Transfer and Appeals program, Chapter 160, Statutes of 1993 for the period of July 1, 1999 through June 30, 2002.

The District's 1999-2000 and 2000-2001 claim were filed on December 22, 2001. They are not subject to audit after December 31, 2003.

The District has complied with the requirements of the Parameters and Guidelines to provide "source documents" such as "employee time records and/or worksheets."

For the reasons stated herein, Newport Mesa-Unified School District respectfully submits that the proposed audit report be corrected as to the facts and the law prior to its final issuance.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Robert J. Barbot', is written over a horizontal line.

Robert J. Barbot, Ed.D.
Superintendent

c: Vincent P. Brown, Chief Operating Officer, State Controller's Office
Paul H. Reed, Assistant Superintendent, Business Services, Newport-Mesa Unified School District
Jeff Trader, Director of Fiscal Services, Newport-Mesa Unified School District
Jean Cook, Financial Analyst, Newport-Mesa Unified School District

**State Controller's Office
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